

South Carolina Board of Economic Advisors

Statement of Estimated State Revenue Impact

Date: April 30, 2008 (As amended April 23, 2008 by the House Ways & Means Committee)

Bill Number: H.B. 4355

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Committee Requesting Impact: House of Representatives

Bill Summary

A bill to amend Sections 4-10-20, 4-10-350, 4-10-580, and 4-37-30, all as amended, of the Code of Laws of South Carolina, 1976, relating to the local option sales tax, the capital project sales tax, the personal property tax exemption sales tax, and the transportation infrastructure sales tax, so as to exempt from these taxes unprepared food items eligible for purchase with United States Department of Agriculture food coupons and make this exemption apply prospectively; and to amend Section 12-36-2120, as amended, relating to sales and use tax exemptions, so as to allow a county governing board by ordinance to extend the state sales tax exemption for food items to a locally imposed sales and use tax.

REVENUE IMPACT ^{1/}

This bill is not expected to affect General Fund revenue in FY2008-09. This bill would reduce local option sales and use tax revenue by an estimated \$40,671,573 in FY2008-09 if all of the local governing bodies of the counties adopt an ordinance exempting unprepared food from local sales and use tax and apply discount allowances for timely filing of local option sales taxes.

Explanation of Amendment (April 23, 2008) – By the House Ways & Means Committee

This amendment would add Sections 6-1-580 and 6-1-780 to include a discount allowance for timely filing of local option sales taxes to the Department of Revenue. The discount allowances mirror the current discount language contained in Section 12-36-2610 for filers of state sales and use taxes. If the sales tax return is remitted before the due date on the final return and the sales taxes on the return are less than \$100, the discount allowance that may be applied is three percent. Also, if the sales taxes on the return are \$100 or more, the discount allowance that may be applied is two percent. The discount allowance permitted a single taxpayer may not exceed \$3,000 during any one fiscal year. Based on information provided by the Department of Revenue, nearly \$23,000,000 in discount allowances were applied to total sales and use tax collections of over \$3,276,000,000 in FY2006-07. This yields an effective discount rate of less than one percentage point. Based on the Board of Economic Advisor's sales and use tax forecast made April 7, 2008 and applying the effective discount rate of less than one percent to an estimated \$386,461,330 of local option sales taxes (\$425,780,288 of local option sales taxes less \$39,318,958 of local option sales tax on grocery store food purchases), yields a reduction of local option sales and use tax revenue of an estimated \$2,705,229 in FY2008-09. Since the effective date of this amendment begins January 1, 2009 for taxable periods beginning after December 2008, the discount allowance for timely filing of local option sales and use tax returns would reduce local option sales and use tax revenue by one-half, or an estimated \$1,352,615 in FY2008-09.

Explanation of Bill filed January 8, 2008

This bill would amend Sections 4-10-20 (local option sales tax for county and municipality residential property tax relief), 4-10-350(B) (local option sales tax for capital projects), 4-10-580(B) (personal property tax relief on private passenger motor vehicles, motorcycles, aircraft, boats, and boat motors), and 4-37-30(A)(9) (local option sales tax for transportation projects) to exempt unprepared food items eligible for

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purchase with United States Department of Agriculture food coupons from the local option sales tax. This bill also amends Section 12-36-2120(75) to allow a county to exempt grocery store food from local sales and use tax only by ordinance of the governing body of the county. All forty-six counties exempt food purchased by individuals with food stamps from the local option sales tax, and only Clarendon County applies a sales tax to food items purchased at the local level for its local option school sales tax. Currently, nine counties have enacted more than one local option sales tax, and the personal property tax relief sales tax is currently not in use in any county in the state. Based upon data from the U.S. Department of Labor, Bureau of Labor Statistics, *Consumer Expenditures Survey*, and the South Carolina Department of Revenue, food purchased at grocery stores accounts for an estimated eight percent of total consumer spending. In FY2006-07, local sales and use tax revenue from the local option property tax relief sales tax, the local option capital projects sales tax, and the local option transportation projects sales tax amounted to \$425,780,288. If all of the local governing bodies of the counties adopt a sales and use tax exemption on food ordinance, then after adjusting this figure for inflation and multiplying the resultant by eight percent yields a reduction of local option sales and use tax revenue of an estimated \$39,318,958 in FY2008-09.

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^{1/} This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.